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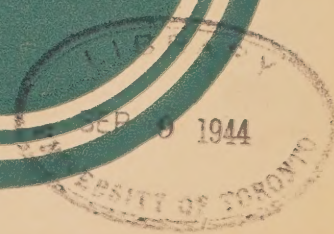
CANADA'S WARTIME MEASURES FOR

# *ECONOMIC STABILITY*

TO KEEP DOWN THE  
COST OF LIVING

ISSUED BY THE GOVERNMENT OF CANADA

JUNE, 1944





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## WE MUST HOLD THE LINE!

On the home front the battle against inflation is now the most critical of all.

The winning of this battle will contribute much to winning the war.

It will contribute more than all else towards the solution of post-war problems.

The purpose of Price Control is to prevent inflation. Its purpose is to *protect* and *maintain* a basic standard of living.

A higher money income will not be of any advantage if, because prices are going up, our money buys less and less. To win the battle against unemployment in the post-war period, we must first of all win the battle against inflation.

Salaries and wages are a large element, often the largest element, in the cost of everything we buy.

If the Price Ceiling breaks down, in the long run all stand to lose.

We *must* hold the line against inflation to assure victory in war.

We *must* hold the line to provide a solid foundation on which, after the war, to build a greater and a better Canada.

*W. L. Mackenzie King.*

PRIME MINISTER OF CANADA

Ottawa, December 13, 1943

### THIS HANDBOOK

has been prepared by an inter-departmental committee composed of representatives of the Departments of Finance, Labour, Agriculture, the War-time Prices and Trade Board and Wartime Information Board.

### THIS COMMITTEE

is responsible for the carrying out of a programme of information on Canada's efforts to maintain stability of prices and the cost of living.

### THIS BOOKLET

is intended for the use of newspaper and radio writers, speakers, study groups and for those engaged in the use of other media presenting information to the public.

# STABILIZATION CONTROLS

## AND WHAT THEY DO

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- **PRICE CONTROL**

Protects the consumer by putting a ceiling on the prices of goods, rents and services.

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- **WAGE AND SALARY CONTROL**

Prevents wage and salary costs from exerting an irresistible upward pressure on the cost of living, while providing for wage adjustments to meet cases of hardship.

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- **DISTRIBUTION CONTROLS**

Allocate materials and supplies to war and civilian industry on an efficient and equitable basis, and ensure a fair share of goods to the consumer.

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- **WARTIME TAXATION**

Provides funds for carrying on the war in the fairest manner possible, and prevents excess spending from bidding up prices.

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- **GOVERNMENT LOANS**

Provide necessary additional funds for war while simultaneously reducing excess current purchasing power and providing extra financial resources for the individual and the economy as a whole in the post-war period.

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These measures working together constitute Canada's economic strategy in war-time. The whole-hearted support of them by every Canadian is required to prevent the chaos and hardship of inflation, to promote an organized and maximum war effort now, and to build sound foundations for the post-war period.

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# WHAT ARE THE STABILIZATION CONTROLS?

Stabilization controls in Canada consist of a series of economic policies and measures introduced since the war began to enable Canada to throw its human and material resources into the war in a way that is fair to all Canadians and efficient, and, at the same time, to prevent inflation.

To organize for total war it has been necessary in Canada to introduce many controls on the economic front which were undreamed of in peacetime. The more important of these are:

- 1) Price control.
- 2) Wage and salary control.
- 3) Heavy taxation.
- 4) Increased saving, through Victory Loan campaigns, etc.
- 5) Control over the distribution of materials and supplies.

## *Interdependence of Controls*

These controls interlock in such manner that a defect in the working of any one of them directly weakens the system of controls as a whole. Wage and salary control are obviously basic to price control. Heavy taxation and purchase of Victory Bonds finance the war effort and at the same time reduce the pressure of excess purchasing power on the price ceiling. The controlled distribution of materials and supplies is likewise an essential part of our war economy and simultaneously distributes necessary consumables in the most equitable manner.

Other types of control are necessary to the planning of the war programme, including many which apply mainly to the actual production of war materials, but those listed above directly affect every individual. On the effectiveness of these controls depends the success of the entire war programme on the home front. Behind these measures is the will of the Canadian people to wage total war, proposed and accepted in a democratic manner.

In similar fashion the economic interests of the various groups making up our population are inseparably intertwined. Just as members of any one group appreciate the necessity of ceilings being placed upon the products of all other groups, so they in their turn must accept controls on their products for the common good. Victory on the military and home fronts demands joint effort and joint responsibility in a common cause. Selfishness on the part of any single group will jeopardize not only the welfare of the Canadian community as a whole but, in the long run, will inevitably react against the interests of the group responsible.

# Why Are Stabilization Controls Needed?

## 1 **ECONOMIC STABILIZATION PREVENTS HARDSHIPS AND INJUSTICES OF INFLATION**

Economic controls have been adopted to protect the people of Canada against the hardships and injustices of inflation.

In every previous war in modern history the strains and pressures on economic systems have led to a steadily rising cost of living resulting in inflation. This cycle used to be accepted as inevitable even though it meant hardship for the great majority. With Canada equipping its own fighting services and helping feed and equip its allies, the potential danger of inflation was and still remains enormous.

Signs of inflation developed in 1941, before the price ceiling and wage control were introduced. In the six months before the ceiling was adopted, prices were rising *three times as fast as in the earlier part of the war!*

If the cost of living had been allowed to rise unchecked, living standards would have been progressively reduced. Under a condition of inflation some wages and salaries may rise, but wages and salaries generally cannot keep pace with the increase in the cost of living. For people living on pensions, annuities and other forms of small savings bringing a fixed income, inflation spells poverty and hardship.

War is bound to disrupt economic conditions and ways of living. But there is no justification for allowing the burden to operate in the inequitable fashion produced by uncontrolled inflation.

Canada has established a system of taxation and government borrowing that takes into account everyone's ability to pay and is designed to distribute the burden of war finance fairly. Inflation would have reduced the purchasing power of a man or a family in the same way taxes reduce purchasing power. But it would have meant a more severe reduction, and unfairness.

The unfairness comes from the fact that inflation strikes hardest at people whose incomes are fixed in dollars and at people who

are unwilling or unable to use their bargaining strength to boost their incomes.

With inflation the people with the lowest incomes suffer most severely. On the other hand, inflation falls with least severity on people who are able to use a rise in prices as an excuse to demand or take higher incomes. Thus by keeping prices stable an enormous amount of hardship and injustice is avoided.

## 2 **ECONOMIC STABILIZATION IS NECESSARY FOR AN EFFICIENT AND MAXIMUM WAR EFFORT**

The relation between stabilization controls and a maximum war effort is not widely understood. The stabilization of prices may seem to many people to be no more than a plan to protect the purchasing power of each dollar we earn. It is certainly that, but it is also much more. The important thing is that it is possible to plan and organize Canada's economic resources for maximum war production, and to safeguard the essentials of our standard of living *only if there is economic stability on the home front.*

Canadian industry and agriculture have gone through four years of change and development scarcely thought possible in September, 1939. In many cases production has been diverted from normal channels to the production of war materials. For speed and efficiency the flow of supplies and materials into war factories must be planned in advance. New plants and equipment have been built to make explosives and ships, rubber and planes.

Similarly, Canadian agriculture has put forth a remarkable war effort. Despite the fact that he has been handicapped by shortages of both labour and machinery, the Canadian farmer is working today more efficiently than ever before and has actually increased his production of food somewhere between 40 and 50% over that of pre-war days.

On the labour front, Canada has added more than 1,000,000 persons to the labour force. Hundreds of thousands of workers have been directed into high-priority industries where

they are most needed. War expenditures alone last year purchased more goods and services than Canada produced in 1939.

This job could not have been done effectively without *plans* and *controls*. Nor can it continue to be done under the chaotic conditions that would be produced by *inflation*. If prices were to get out of hand many new and unknown factors would be introduced, which would make production haphazard and confused. With costs of production rising steadily, every producer would face the danger that his costs might exceed the price received for his output. More attention would have to be given by manufacturers to the job of protecting themselves against the effects of inflation and less attention would be given to producing the tools of war.

The same is true of wage earners and farmers. If the cost of living started to soar, employees would worry more about protecting themselves against the rising cost of living, and less about the job of production. National Selective Service, necessary to orderly production, would be impossible in an inflationary labour market. Under these conditions, production schedules would be disorganized and output of war materials and civilian supplies alike would decline. Under inflation farmers would be unable to plan their work properly. For example, they would not be able to judge what the relationship between the price of feed and the price of finished livestock would be. In the confusion that would occur farmers would not be prepared to take risks and the production of food and raw materials would suffer.

To make matters worse, a drastic rise in the cost of living would mean that millions of Canadians would find their standards of living reduced, some slightly, but most of them substantially. Speculators would be able to make outrageous profits from the buying and selling of goods they did not produce. Everyone would suspect others of profiteering, and social friction might well develop.

If profiteering and impoverishment were found side by side a general distrust would grow that could wreck national unity and divert Canadians' energies from vital war activities.

Economic stabilization avoids these dangers. It allows war production to be planned in an orderly and effective manner. As such, it is *essential* in Canada today.

### 3 **ECONOMIC STABILIZATION IN WARTIME WILL IMPROVE POST-WAR PROSPECTS**

A successful stabilization policy will leave Canada in a position to meet the problems of post-war reconstruction with far more success than would be possible if inflation were present. Canadian producers will be able to face the difficulties of re-conversion and reconstruction with confidence if they do not have to grapple with the hazards of inflation and the certainty of eventual deflation.

If prices get out of control in wartime the inflationary trend would almost certainly continue into the post-war period. History shows that a *post-war* inflation probably would be more violent than wartime inflation. This was the case in countries that suffered under inflation in all previous wars. Even in Canada the cost of living in dollars and cents went up in the two years 1919 and 1920 as much as it had in the *four* years from 1914 to 1918.

But inflation would not end the matter. The inflation of 1914-1920 was inevitably followed by a collapse of prices: that is by deflation, which brought impoverishment and unemployment to many. Deflation left many countries in a state of severe depression, and had serious effects on Canadian industry and agriculture.

When prices fall, as they always do after inflation, manufacturers and distributors find themselves with merchandise worth less than its cost; producers find their selling prices are lower than production costs. The result is that production is curtailed and unemployment occurs.

The deflation that began in 1920 was particularly severe on farmers, who saw farm prices drop by 50% in the period from 1920 to 1923. The notion that farmers stand to gain from inflation proved to be a sad illusion. Their ultimate losses were probably greater than those of any other group of producers.

To prevent a recurrence of these conditions

prices must be kept stable now and until the wartime threats to stability have been removed by victory.

Stabilization controls today are helping to create firm foundations on which to build a prosperous Canada after the war.

## **4 ECONOMIC STABILIZATION PROTECTS THE SAVINGS OF THE CANADIAN PEOPLE**

Most Canadians have always saved something for protection against a rainy day. They have put money into savings accounts, purchased insurance policies, annuities and other types of fixed dollar investments. During the last five years they have also bought War and Victory Bonds and War Savings Certificates. In fact, there were approximately three million applications for the 6th Victory Loan. These wartime savings have helped to relieve the scarcity of goods and to keep prices down.

After the war the present restrictions on production can be expected to disappear and goods will be available in larger amounts and better quality than in wartime. The spending of some of these wartime savings after the war will also help to maintain employment.

The present stabilization programme ensures that when the people of Canada wish to use their savings after the war, their dollars will buy just as much as the dollars they originally saved. Therefore, everybody who has savings of any kind has a strong personal interest in the success of the stabilization measures.

## **What Are the Causes of Inflation in Wartime?**

Certain forces are continuously at work in wartime tending to push up prices and the cost of living.

One of these is the increase in the amount of money which both the public and the government have to spend on goods and services. A million more people are working today than before the war. Many are working longer hours and drawing overtime pay. Many have been able to shift to better-paid jobs than they had

before the war. Nearly all wage-earners have had some increase in wage rates. (Wage control began only at the end of 1941, but there have been many wage adjustments since then). Farmers are producing more and getting better prices. Needless to say, government spending has increased enormously since the outbreak of war.

All this has meant more money to spend, despite increased taxes and voluntary savings. It is estimated that the total of all the individual income in Canada — even after allowing for the increase in income taxes—has risen from \$4,200,000,000 in 1939 to about \$7,000,000,000 in 1943. That sum is far in excess of the amount necessary to purchase available consumers' goods. To the extent that the excess is not voluntarily saved, invested or siphoned off in taxes, it represents a dangerous inflationary threat. It matters not that Canadian consumption today is some 10 to 12% higher than it was in 1939. There still exists a scarcity of consumers' goods and services in relation to the purchasing power that can be directed against them at any given moment. The demands of a really adequate war effort impose rigorous limits upon the production of consumables available for the home front. We simply cannot have our cake and eat it too.

A second force working to raise prices is the continuous pressure of higher costs of production. If production costs continue to rise the producer or manufacturer must ultimately be able to sell at a higher price, or lose money and finally go out of business. That would reduce the supply of goods available on the market and increase the relative scarcity of goods for civilian consumption, thus worsening the situation. The only solution to this problem is to help producers keep costs down.

How does it happen that costs of production go on rising?

There are a number of cost increases which are absolutely unavoidable. There is the rise in the price of imported materials, the higher cost of shipping, and the need for purchasing more expensive substitutes for the materials that Canada used to import from countries now under enemy control.

On the other hand, there are certain increases in costs and prices which can be avoided.

Higher markups or higher profit margins taken by business are important examples of this kind. To prevent inflation, control of profits and markups is necessary.

Next, there is the all important question of labour costs. Higher labour costs could come about in a variety of ways, some of them unavoidable and some not. The use of inexperienced labour, absenteeism and a high labour turnover all add to production costs. The wartime tendency for labour to be "upgraded" or the payment of high overtime rates also raises wage costs.

Finally, any increase in wage rates which is not accompanied by an increase in labour efficiency will raise the cost of production.

Similarly, the payment of substantially higher prices for food, however necessary this may have been in the past, would raise the cost of living and stimulate a further demand for higher wages.

To achieve stable conditions, every type of cost or price that can be controlled *must* be kept under control.

## The Strategy of Canada's Stabilization Policy

Since the danger arises on many fronts, the battle for stabilization has to be fought on all fronts simultaneously. If effort on any one front is slackened all others are endangered. The strategy of the stabilization policy is therefore organized on five fronts, all inter-connected.

### 1 PRICE CONTROL

On the prices front the government has long since placed a ceiling over the prices of virtually all goods and services. For the last two and a half years every producer or distributor has been required to sell goods at prices prevailing in the "basic period" in late 1941, or at prices established by the Wartime Prices and Trade Board as equivalent to the basic period price. There have been some permitted price increases in special cases where the price "freeze" created hardship or injustice, or where supply was seriously threatened as a conse-

quence. These increases have been mainly responsible for the 3% increase in the cost of living that has occurred since December, 1941.

In some cases individual ceiling prices have been replaced by uniform ceiling prices for all sellers. For example, when the price ceiling was first imposed every butcher had to sell rib roast at the price charged just before the ceiling was introduced. Today, the maximum price for rib roast is the same for all butchers in any area. But many other goods and services from hats to haircuts are still selling at the same prices ruling in the same store over two years ago.

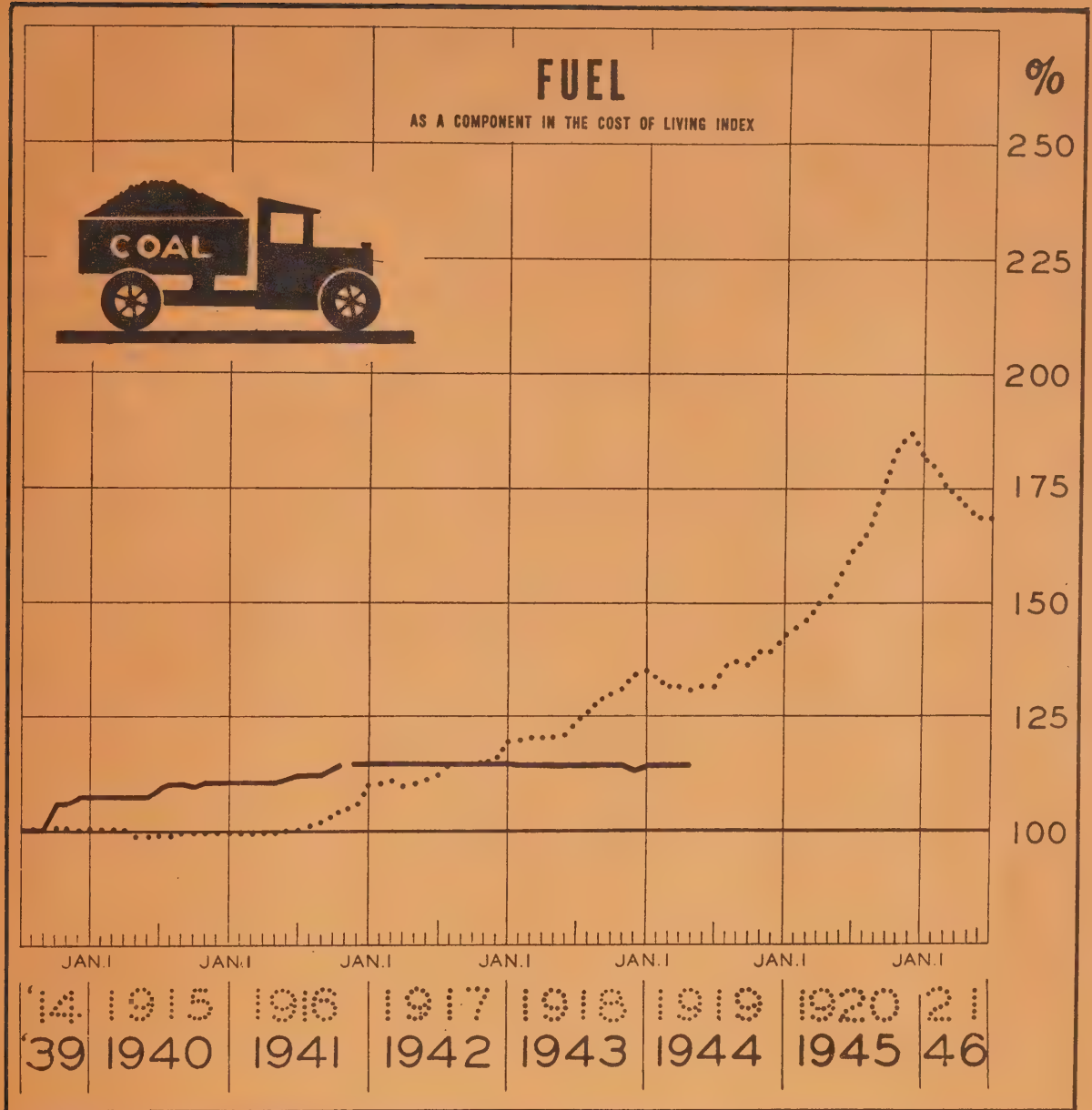
In one way or another, therefore, the principle that today's prices must not exceed the prices ruling in October, 1941 is rigorously enforced, notwithstanding the fact that costs of production may have risen and styles and materials may have changed since that time.

### The "Squeeze"

The price ceiling policy has placed many producers and distributors in difficult situations. Unable to raise prices they have had to absorb increases in costs of production themselves. Their willingness to carry the burden of increased costs is the contribution which Canadian producers are making to the success of the stabilization policy.

However, where the "squeeze" exerted on producers by the ceiling has become so severe as to endanger production the government has helped in various ways.

In some cases this "squeeze" on manufacturers has been reduced by allowing the manufacturers to pass on part of it to the distributors in the form of higher prices, with the proviso that prices to consumers must not be raised. In many cases manufacturers are required to concentrate on fewer styles and models and to eliminate unnecessary "frills". These "simplification" measures all reduce the cost of production — besides saving materials — and help manufacturers to sell their goods at ceiling prices, even though other costs of production have risen. For example, when production is confined to a small number of models manufacturing costs are reduced thereby and, since the stores don't have to carry such a wide range in stock, distribution costs are lower too.



If measures of this kind are not enough the government may suspend certain customs duties and other import taxes. In some cases import costs have also been reduced by government bulk-purchases of imported materials. Such materials are then resold to producers, sometimes at a loss.

### Subsidies

As a last resort — and only as a last resort — the government has sometimes found it neces-

sary to pay subsidies to enable producers to meet an unavoidable but serious increase in costs. A large proportion of the total subsidy bill has also been used to subsidize imports to enable the consumer to purchase imported fruits, cotton textiles and other items today at 1941 prices. Subsidies have also been paid to farmers as an alternative to an increase in the price of food.

Assistance by way of subsidy is given in the interest of the consumer when there is no other

way of ensuring necessary supplies at ceiling prices. The fact that it is more convenient administratively to make payments to producers or dealers does not alter the fact that the real beneficiary of subsidies is the consumer or the farmer-producer.

The payment of subsidies as a means of preventing price increases, or of bringing about lower prices, is a very useful weapon in the anti-inflation programme but it has to be used very carefully. Subsidies have to be paid for by the taxpayer, so that the gain to the consumer from lower prices is partly offset by higher taxes or larger borrowings. The great merit of this approach is that subsidies can be used to prevent a price increase which, if it were allowed, would beget many other price increases and so lead into the inflationary spiral. A price increase for a raw material, for instance, often means a bigger price increase at the manufacturing stage, and an even bigger price increase when the finished article passes through the distributive trades. Thus price increases have a cumulative effect. A subsidy to prevent a price increase is therefore an example of the stitch in time that saves nine.

Provided that the total cost is kept within bounds and that they are paid only when no other alternative exists, subsidies save money to the consumer and taxpayers of Canada by helping to prevent inflation at the points where inflation might get started.

### ***Rent Control***

Returning to the price ceiling policy, it should be noted that the ceiling also applies to rentals which are today "frozen" throughout Canada. The ceiling on rentals is a vital factor in holding the cost of living down since rents represent a large item in every householder's budget. In view of the scarcity of housing accommodation today there is no doubt that, in the absence of rent control, rentals in congested areas would have soared upwards. In point of fact, the average level of rents today throughout the Dominion is about the same as it was when the ceiling was imposed.

Allied with price control is the task of ensuring an adequate supply of essential goods and services to consumers. The measures used

to achieve this objective are mentioned later. But in this respect, as in controlling prices, Canada has been extremely fortunate in comparison with other countries at war. In large measure, however, the success which the Canadian people have had in tackling the problem of wartime economics has been due to the co-operation given by all groups to the stabilization policy. Necessary measures of price control are willingly supported, even though they sometimes appear to be burdensome to the producers and distributors directly concerned, because of the larger advantage which accrues to the community as a whole.

## **2 WAGE AND SALARY CONTROLS**

To support price control it was essential to stabilize wages and salaries. This follows from the fact that wages and salaries account for about two-thirds of all production and distribution costs. This is not always apparent because frequently it is overlooked that the materials, transportation, etc. used in manufacturing goods also embody a large amount of wage costs. The result is that in many cases it would be impossible to raise wage rates without the increase being passed on to the consumer in the form of higher prices.

To make it possible to stabilize prices, wages were therefore placed under control late in 1941. The wage control regulations have been amended from time to time but the basic principle of all such regulations has been that no employer may raise the wage rates paid for the various jobs without the permission of a War Labour Board. The War Labour Boards, in turn, are empowered to authorize wage increases only in certain specified circumstances. The Boards have done so in cases where increases have been found warranted.

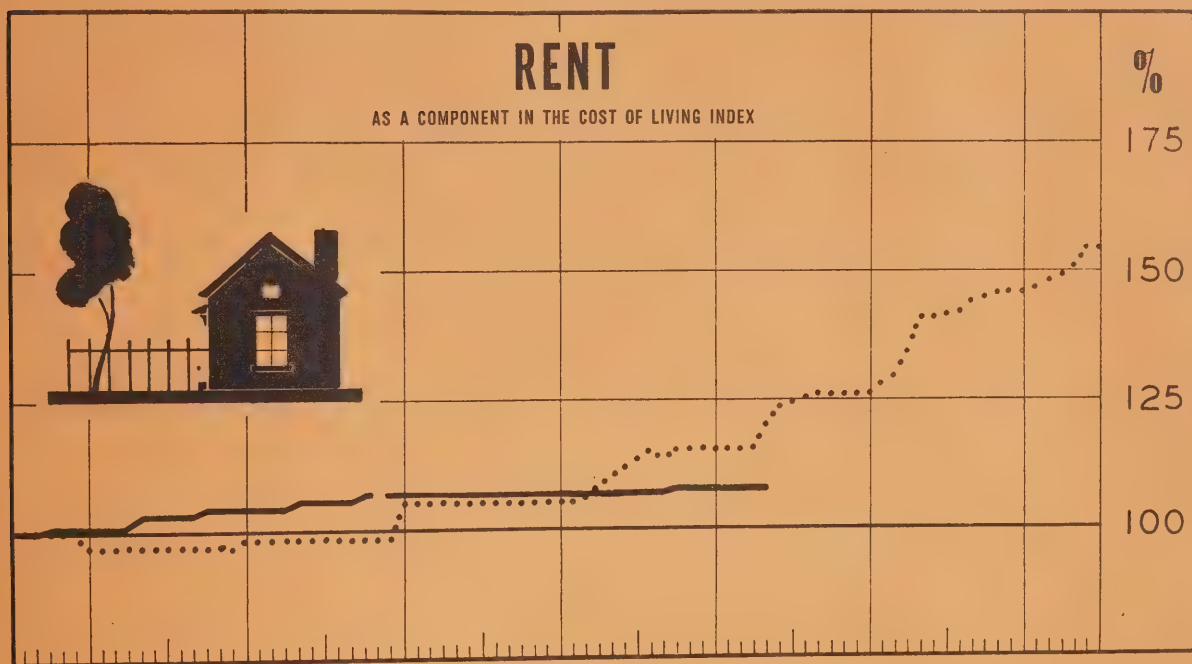
### ***The Cost of Living Bonus***

Until December 1943, the Wartime Wages Control Order provided for the grant of a cost of living bonus in addition to wages and based upon increases in the cost of living index. This was intended to protect workers, whose wages were controlled, against any increase in the cost of living which might occur despite price con-

trols. When the Wages Control Order was revised in December 1943, it provided that the cost of living bonuses payable under the previous Order should be incorporated into basic wage rates as from February 1944. The cost of living had risen less than 4 points since the introduction of the price ceiling and wage control had been introduced. Moreover, the Prime Minister stated, in announcing the revisions, that it was the Government's policy to take all practical measures to keep the cost of living at present levels, and that "if the cost of living rises by more than three percent and remains at that level for two consecutive months, the Government will review the whole programme of price control and wage control and take appropriate action". When the Order was further revised in March 1944, to permit wage adjustments on a somewhat different basis, the Prime Minister cautioned that "if, under the amended order,

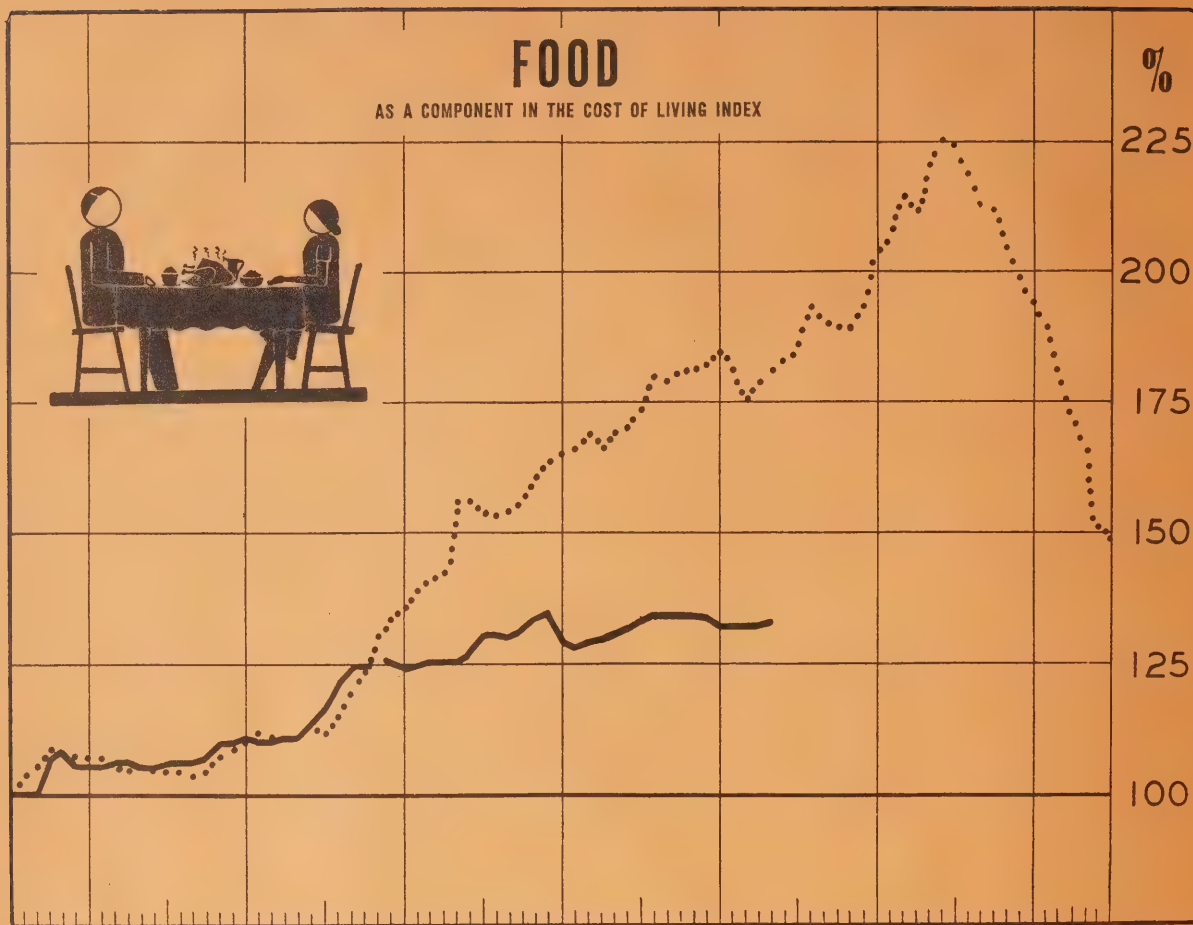
### Increased Wage Rates

The present regulations permit the War Labour Boards to authorize increased wage rates in two types of cases. First, an increase may be granted where the Board finds it is necessary to rectify a gross inequality or gross injustice. Second, a Board may, if it deems such action fair and reasonable, authorize an increase in rates for wage earners who have not, since the beginning of the war, received either an increase in wage rates, or a cost of living bonus, or a combination of the two, equal in amount to the maximum cost of living bonus which any workers of that category would have been able to receive under the Wages Control Order just before it was amended in December 1943. This ensures, for example, that the weekly wages of an adult man, including the cost of living bonus now incorporated into basic rates, may be increased up



the cases of wage adjustments which result in increases in the cost of goods and services should prove to be too numerous, the margin of three per cent would soon be exhausted. The government would then be faced with the unfortunate task of having to review, and to consider the practicability of continuing the whole stabilization policy".

to a level \$4.60 above the level of August 1939, or, if the wage classification in question was first established by the employer after August 1939, up to a level exceeding that rate first established by an amount equal to 25c for each point which the cost of living index increased between the time the classification was established and October 1, 1943. (For employees other than



adult men, earning less than \$25 a week, the amount is less than this and is based upon a percentage of the wage rate.) The Wages Control Order also requires the War Labour Boards, when they are considering any proposed increase in wages rates, to take into account the probable effect of such an increase on costs of production and on the cost of living.

### *Salary Control*

Control over executive and managerial salaries has been exercised under the Wartime Salaries Order, administered by the Income Tax Division of the Department of National Revenue. Salary control has been fully as strict as wage control, and cost of living bonuses have been permitted in general only for salaried officials earning less than \$3,000 and were not required by the law, as in wage control. In wage control, it is only the rate, or range of rates, for

the job that is controlled — workers can be advanced without permission from one job to a higher-paid one if they qualify for it, and may be advanced to the top of the range of rates for their job as their experience and merits justify it. Under salary control this latitude has not been allowed because salaried positions, particularly in small and medium-sized businesses, cannot be satisfactorily defined or classified. Under the Salaries Order, therefore, the salaries of individuals are frozen at the rates in effect in November, 1941, and may be increased only with specific authority in each individual case justified by promotions involving added responsibilities and increased duties, or in a restricted class of cases, by the adjustment of a salary which had been established at a probationary rate, or by other special circumstances set forth in the Order.

## *Increased Earnings*

In the two wartime years, before wage control was introduced, there were many increases in wage rates and more increases in weekly earnings. Department of Labour statistics show that on the average wage rates, including the cost of living bonus, rose over 21% from 1939 to the end of 1942. To November 1943, enough adjustments in both wage rates and cost of living bonuses were granted to add nearly \$150 million per year to labour's income. In addition, the circumstances already referred to which enable a man or woman to increase earnings despite wage control have continued to operate up to the present.

The increase in the average earnings of Canadian workers since the war, in so far as it has not resulted from higher wage rates, has been caused by a number of factors.

For example, many people have been able to move out of relatively low-paid jobs into better-paid occupations, especially in war industries. Work has been more regular than it was before the war; half-time became full-time; full-time lengthened into overtime, at overtime rates of pay. Many wage earners have been re-classified, or "upgraded", or promoted into higher-paid jobs. In addition, cost of living bonuses have been paid, first on a restricted basis, but ultimately extended to cover nearly all wage earners.

The effect of these developments is that, according to official statistics, the average weekly earnings of wage earners today are about 25% higher than they were in June, 1941. If increases in earnings previous to 1941 were taken into account (the exact figure is not known) the total wartime increase in earnings for the average wage earner would be greater than the above figure.

Part of these increases have been offset by higher income taxes, and by the increase in the cost of living, the greater part of which occurred before the stabilization policy was introduced. So far as the future is concerned, the important thing is to see that the real value of wages is not reduced by any further rise in the cost of living.

In summary, then, it may be positively stated that wage control is basic to price con-

trol, for the latter is impossible otherwise. For that reason, the general public realizes the real contribution that wage earners are making to the success of the stabilization programme.

It is recognized that wage earners have been in a strong position to obtain an increase in wage rates in the last few critical years. Manpower is scarce. Every worker is more or less indispensable. The bargaining power of the wage earner is strong. In that respect he is in a similar position to the manufacturer or storekeeper who has scarce goods to sell; or the farmer who is selling food that this country or its allies need at all costs; or the landlord who is in a position to secure high rents.

These groups have accepted price ceiling controls as a necessary wartime device. In shouldering the obligations of wage control Canadian workers are playing their part in keeping economic conditions sound and stable. Like the other groups that go to make up the Canadian community, labour has everything to gain and nothing to lose from economic stabilization.

## **3** *WARTIME TAXATION*

Taxation is another device essential to controlling the cost of living. While the relation between tax payments and price control is not obvious, it is none the less important. The primary purpose of taxes is to provide the government with the money necessary to pay the costs of war as well as those of ordinary government services. In addition, however, the payment of taxes reduces excess purchasing power and thus curbs a force tending to push prices upward. As a result, money which might otherwise be used to purchase the less necessary consumers' goods is used by the government to further the war effort.

The policy approved by Parliament and the people of Canada is to pay the costs of war out of taxes as far as possible. As a consequence the nation's revenue from taxation has increased more than five-fold since the outbreak of war. But even this greatly increased revenue from taxation has been sufficient to pay only about half the unprecedented expenditures attributable to the war.

The most important requirement of taxes is that they should be fair. That principle is embodied in the formula: "equality of sacrifice on the basis of ability to pay". Based upon this policy wartime taxes have been generally "progressive" in nature, that is they have fallen more heavily on higher incomes and profits as well as on those luxuries and less necessary goods, the purchase of which is evidence of some ability to pay.

### *Result of Changes*

These wartime changes in taxation have revolutionized the Dominion's tax system. Before the war the sales tax, import duties and other commodity taxes produced the major share, while income taxation produced only a minor portion of total government revenues. Today the situation is reversed. Direct taxes on incomes and profits produce the bulk of revenue while the indirect and less desirable types of taxation account for only a small percentage of the total.

These changes are best illustrated by comparing present with pre-war income taxes. First, the level of tax exemption for single persons has been reduced from \$1,000 per year to \$660, while in the case of married persons the exemption has dropped from \$2,000 to \$1,200. These changes in exemption increased the number of Canadians paying income tax to nearly 2,000,000. Second, the rates have been drastically increased. In pre-war days, an Ontario citizen earning \$2000 per year paid a total income tax (Dominion and Provincial) of \$45; in the year 1943 he paid \$600 of which \$160 is refundable. Married persons at this level were exempt before the war; in 1943 they paid \$431 of which \$200 is refundable. For married persons with two children and the same income, the 1943 tax was \$215 of which \$108 is refundable. The "progressive" nature of the present rates is evidenced in the fact that persons with annual incomes in excess of \$4,000 are taxed more than 50 cents on every dollar they earn in excess of that level. Those in the top bracket pay in tax 98 cents of every extra dollar return from investments. Thus while rates are heavy, the income tax serves to distribute fairly the financial costs of the war

between all groups and individuals.

Additional changes have extended the principle of fairness and increased the efficiency of tax collections. A portion of the income tax has been regarded as "compulsory savings" and, with interest, is refundable after the war; those who were already committed to certain forms of savings (notably pension payments, mortgage principal payments and life insurance) have been allowed to count such savings as part of their tax. The family man has been allowed a greater amount of post-war refund than either a single man or a married man without children. Moreover, the allowance for children was changed in form, so that instead of allowing \$400 to be deducted from the top of each taxable *income* for each child before calculating the tax, the family man now deducts \$80 from his graduated tax and \$28 from his normal tax. This means that \$108 is taken *off the tax*, not off the income. The change produced additional revenue without increasing the level of taxes on the great mass of low income tax payers with children. These modifications have helped meet the difficulties of those with relatively modest incomes and heavy family responsibilities faced for the first time by substantial income taxes. In addition, a system of deduction at the source now collects nearly all the tax on salaries and wages and a considerable portion of the tax on dividends, thus making it more convenient for Canadians to pay these heavily increased taxes. Finally, the adoption of a "pay-as-you-go" basis ended a method of collection which often left a heavy tax debt hanging over the head of the Canadian taxpayer.

### *Taxes on Profits*

Taxes on profits, particularly on those of corporations, are likewise an important part of the stabilization programme. In the first place, they help curtail spending. In the second, they operate as a check on prices in addition to the control over profiteering exercised by the War-time Prices and Trade Board and, in the field of war supplies, by the Department of Munitions and Supply. At a time when costs are increasing all along the line price control itself sets a limit on profits. In addition, however, the

corporation income tax and the excess profits tax channel off the whole of any excess profits to the treasury.

All profits of every corporation are first subject to an income tax of 18%; then to an additional flat rate profit tax of 12%; and finally to a rate of 100% on profits in excess of pre-war "standard" profits. Where the 100% rate applies, the corporation is entitled to a post-war refund of 20%. This refund leaves an incentive for keeping down costs by efficiency and economy — a vital matter in time of war. There is also a proviso that the minimum tax must be at least 40% of total profits. The result of these taxes is that if a corporation is able, for any reason whatsoever, to make profits in excess of its pre-war "standard" profits, it is allowed to retain at most only an amount equal to 70% of that "standard". Furthermore, it must not be forgotten that when the profits which *remain* after these corporation taxes have been paid reach the shareholder in the form of dividends they are subject to the *personal* income tax of the recipient. Under the circumstances, therefore, it is very unlikely that recipients of profits will receive more than a fair and reasonable share at a time when the incomes of others are limited by price, wage and salary controls.

The net result of wartime taxation has been a decided lessening in the extremes of income received by various groups in Canadian society. Taxation has "levelled down" the incomes of those in the higher brackets while better opportunities, greater output and, to some, increased prices and wages have "levelled up" the incomes of farmers and wage earners in the lower brackets. This development is in keeping with the need for equality of sacrifice based on ability to pay, and with the democratic purpose behind the war itself.

## **4 GOVERNMENT BORROWING AND PERSONAL SAVINGS**

When a Canadian lends his money to the government by buying Victory Bonds or War Savings Certificates he is helping to pay for the munitions of war and, at the same time, helping to keep the cost of living down. So far as the stabilization programme is concerned, every dollar saved is a dollar less spent on consumer

goods. Saving, therefore, reduces the demand for goods and so helps to prevent shortages and high prices. In this respect, in lending money to the government Canadians are giving the same valuable help as when they pay their taxes.

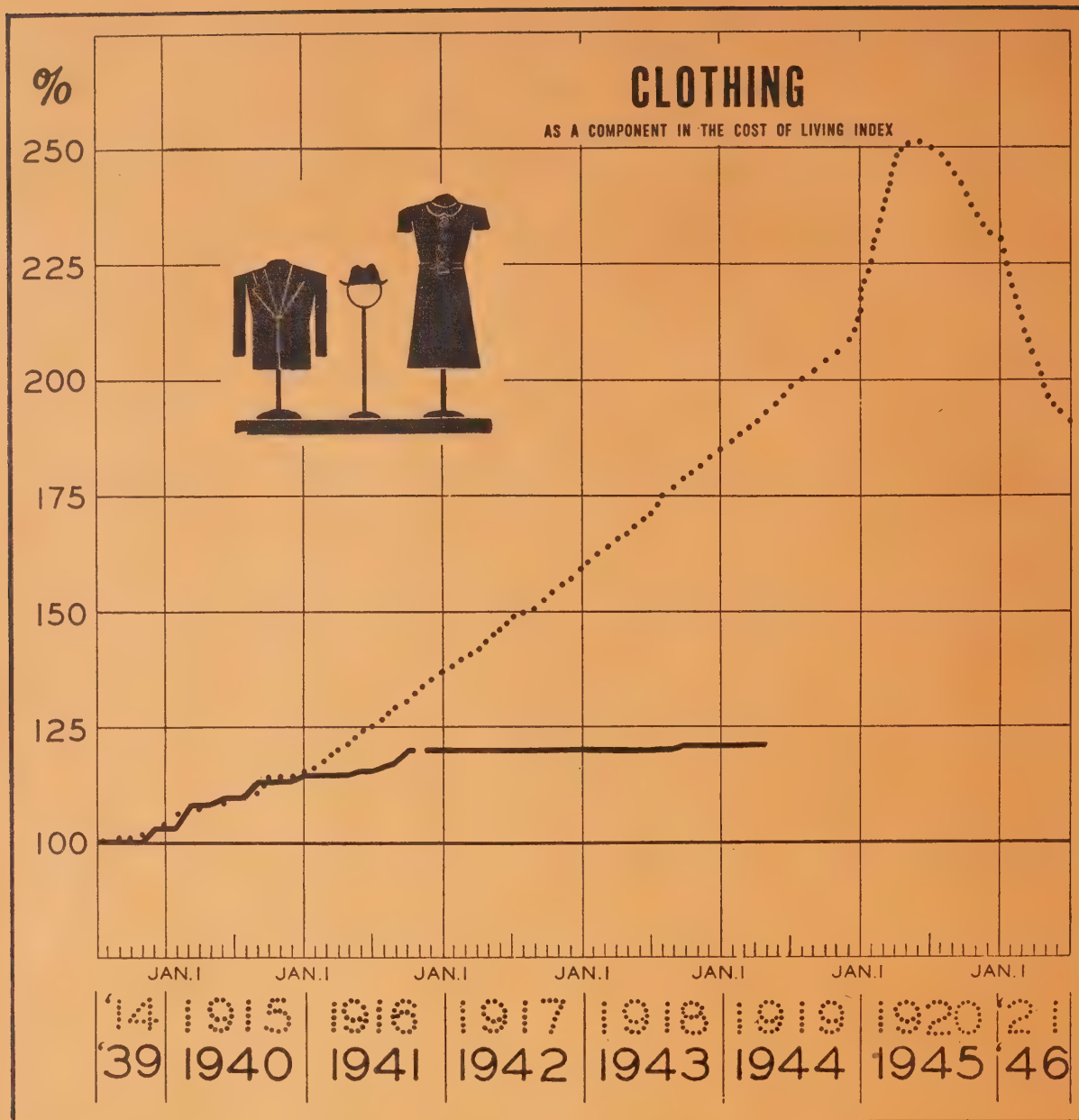
There are, however, practical limits to what can be done by taxation alone. When taxes on incomes become very high they reduce a man's incentive to earn more income by producing more or working harder or running his business more efficiently and economically. It also becomes more difficult to make proper allowance for the various circumstances that govern a man's ability to pay taxes, as a fair taxation system should do. Moreover, it is not possible by taxation alone to reduce the spending of individuals to the level where it will not cause higher prices.

It is necessary, therefore, for the government to meet the balance of its war expenditures, and to drain off more excess purchasing power, by appealing to citizens to save all they can and to invest savings in Victory Bonds and War Savings Certificates.

In carrying out this part of the financial programme the Canadian people have scored as great a success as in the field of taxation and price control. The amount of savings invested in Victory Loans has continued to increase with each new loan and the funds have been subscribed by larger and larger numbers of relatively small subscribers.

About 3,000,000 applications were received in the 6th Victory Loan Campaign. Since the war began, individuals have bought and held more than \$3,250,000,000 of War and Victory Bonds and War Savings Certificates.

These are important facts. They indicate that wartime increases in earnings have been distributed widely over the millions of Canadians in industry, commerce and agriculture. It is the expenditures of these people, rather than the expenditures of the relatively small number of well-to-do people that threaten to push up prices. Similarly, it is the taxes and victory loan subscriptions of these same citizens that will provide the hundreds of millions of dollars necessary to support Canada's armed services on the battlefronts overseas.



## 5 PLANNING PRODUCTION AND DISTRIBUTION FOR CONSUMERS

To be effective, price controls have to be supported by other types of control over the production and distribution of goods and services. The government must ensure that enough of the essential goods needed by the public are actually produced or imported, and that they are properly distributed. Price control would

not work if goods were so desperately scarce or so badly distributed that consumers were driven to offer high prices in order to get what they needed.

This danger is avoided by a system of production and distribution controls operated by the Wartime Prices and Trade Board, the Departments of Agriculture and Fisheries, the Wartime Industries Control Board and other government agencies.

Although Canada is now in the fifth year of the war most of the goods necessary to the maintenance of a relatively high standard of living are still available in the retail stores. This situation is not the result of sheer good-luck. It represents a vast amount of planning and direction by the agencies of government responsible for civilian supplies, in cooperation with Canadian manufacturers, wholesalers and retailers.

### *Planning Adequate Supplies*

To assure adequate supplies, there has to be a careful assessment of the essential needs of war and the civilian economy and plans to get the goods produced. Take the case of textiles. To meet consumer needs the Wartime Prices and Trade Board has controlled and directed the importation or production of the various yarns, fabrics and garments. For example, administrators have had to negotiate with the textile authorities in London and Washington for quotas of various raw materials, yarns and fabrics. As a consequence of international plans to save shipping, Canada had to search out cotton fabrics in the United States to replace cottons formerly bought in England, and obtain allocations from the appropriate authorities. In Canada itself the output of the textile industry has had to be divided between military and civilian claimants and, to make this effective, the production schedules of the mills have been planned and supervised accordingly. Thus, in the knit goods industry, where labour shortages have threatened supplies of such items as infants' and children's wear and work clothing, the Prices Board arranges for sufficient supplies of yarn from abroad and from the domestic cotton industry, cooperates with National Selective Service to obtain higher labour priorities, and has introduced a programme of controlled production of many clothing items, with quotas being set for each knitting mill. To avoid shortages resulting from an increased demand by the public, similar measures have been adopted to guarantee adequate supplies of children's clothing and footwear.

Bulk purchasing of imported materials and the payment of some subsidies, along with

an extensive "simplification" programme, have also been necessary.

Measures of this kind, and many others of a less formal nature have been used to stimulate the production of needed civilian goods. At the same time, to ensure that materials are available for high-priority needs, the production of certain non-essential articles of metal, rubber, lumber, textiles, etc., has been prohibited. One result of this kind of control is that some business firms have had to adjust or contract their operations. But the consumers and producers of Canada as a whole have benefited from the policy.

Let us consider another example of the way wartime controls work. The regulations of the Prices Board require manufacturers to produce their normal proportion of low-price items. Without control manufacturers might be tempted to use the relatively scarce supplies of raw materials to make the higher-priced items, or to make adults' in preference to children's supplies, since the former usually carry a larger margin of profit.

The freedom of manufacturers to take an advantage of wartime situations is curtailed for them, just as it is curtailed for labour by the Wartime Wages Control Order, or by the various National Selective Service Regulations.

### *Distribution of Supplies*

Similar measures are used to control the distribution of goods to wholesalers and retailers, and to the consumer. For instance, it would not be fair to allow a manufacturer or wholesaler who is faced by a bigger demand for his goods than he can supply, to sell only to his favoured customers. If that were allowed, many retailers and many districts in Canada might get little or nothing, while others would get more than their fair share.

The basic regulation is, therefore, that all suppliers must distribute goods in short supply to their trade customers in proportion to their sales to these customers in 1941, the base year. Exceptions are permitted in special cases, as when substantial shifts in population have taken place.

Finally, the same principle of "share and share alike" is used to ration the supply of

some essential commodities (mainly foods) which are relatively scarce. It would not be fair to allow the existing supply of sugar or butter, or tea and coffee, for instance, to go to those who have the most "pull" with the grocer, or to those who have time to stand in line to get the goods as soon as they are put on the shelf.

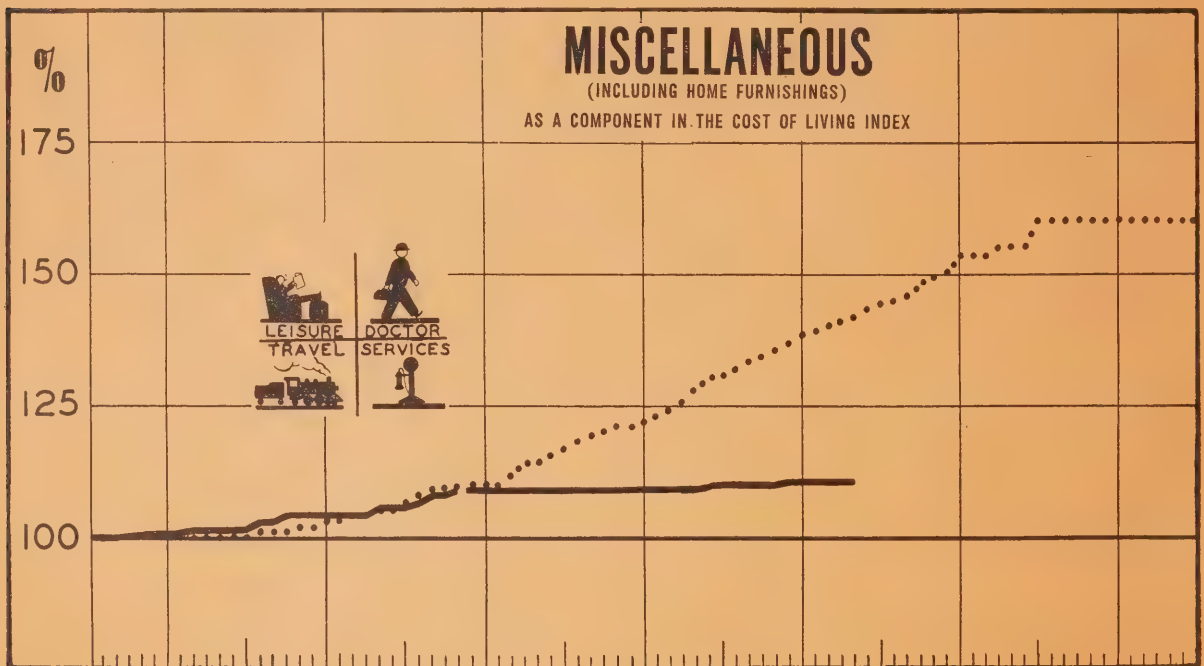
Coupon rationing is the fair and democratic answer to this problem. To let every person scramble for himself would be about as unfair and as ineffective in this case as it would be to let prices, rents and wages be determined by the highest bidder.

These, then, are some of the steps that have been taken to see that, despite the dislocations of wartime, necessary civilian goods and services are available in adequate quantities. Such measures can be made to work, as they have

## Pressures Against the Price Ceiling

### General

So far as the *principle* is concerned, nearly everybody is strongly in favour of the stabilization programme. But—it isn't so easy to get agreement on *application*. Too often stabilization is considered fine for the other fellow. But when it interferes with the particular individual's freedom of action, he is likely to argue that *that* is pressing the principle too far. He may take the attitude that if the controls were relaxed just a little to meet his particular situation the effect on the whole stabilization campaign would be so small that it would not matter.



been made to work, only if prices are under control. If the stabilization policy had not been successful, if inflation had been allowed to develop in Canada, the orderly planning of production and distribution would have proved impossible. Under these circumstances, Canada's war effort would have been but a fraction of what it is today.

The answer is, of course, that one or two exceptions would not ruin the entire programme, but that if one exception is made, it would not be fair to refuse others. Control would be made meaningless.

The fact is: concessions at one point compel concessions at another. All fronts in the anti-

inflation battle are interdependent. The whole line must be held.

The defences against inflation could be broken in a number of important places and the whole economic battlefront jeopardized if the people of Canada were not so determined to hold it.

Canadian manufacturers and distributors are holding the line when they co-operate with the Prices Board to ensure that materials and consumer goods are distributed fairly.

The ordinary citizen is holding the line when he pays his proper share of taxes and buys Victory Bonds and War Savings Certificates to the limit.

The landlord and retailer are helping to hold the line when they comply with the ceiling regulations respecting rents and prices.

Farmers and wage earners are playing their part when they refuse to press for higher farm prices and higher wages.

The reasons why many tend to be dubious about some aspect of the stabilization policy are obvious. Stabilization policy is concerned with economic matters, and economic matters are complicated and difficult to unravel. For example, it is all too easy to fall into error concerning the need for wage controls and price controls and to argue that no harm would result if particular wages or particular prices were allowed to rise.

The second reason why support for stabilization measures sometimes begins to lag is that comparison is often made of the effects these measures have on one individual, as compared with another. If a search is made examples of what look like injustices can be found.

The effect of ceilings on farm prices and farm prosperity is often misunderstood. Misunderstanding leads to criticism.

The same thing is true of wage control.

The stabilization policy is intended to be fair and just to all groups. By and large it is about as equitable a scheme as can be devised. Complete equity and complete justice as between each of the 11,500,000 people in Canada is hardly possible but the wartime controls have shared the wartime burden as fairly as possible.

Let us consider some of the specific cases

where the economics of stabilization are likely to be misunderstood, or where the equity of particular measures is questioned.

## **1 PRICE CONTROL AND THE MANUFACTURER OR DISTRIBUTOR**

Price ceiling regulations are widely accepted by those firms and individuals who are affected thereby.

But there are many urgent requests for special concessions, which, if granted, would ultimately break the price ceiling.

Applicants often think that a price increase is justified in their case. The fact is that the same principles apply to everybody and to diverge from these principles in one case would be unfair to the others.

A manufacturer may argue that his costs of production have gone up. Maybe his labour costs have risen; or perhaps his imported materials are more expensive than they used to be. He finds himself squeezed between a floor of costs which is rising, and a fixed price ceiling. He is not exactly "in the red" but profits are declining. Could not the Prices Board authorize a higher price? He only wants another nickel on the price; the public does not buy the item in question very often. They would not be hurt by so small an increase. The Prices Board has to refuse. If it relaxed control in one case where it was not necessary to give relief, it could not fairly refuse relief in hundreds of other cases. The inevitable result would be the breakdown of the price ceiling.

## **2 THE FARMER AND PRICE CONTROL**

Farmers, like every other economic group, have a vital interest in making the stabilization programme succeed. The farmer benefits from stabilization because it prevents his costs of living and production from rising, and ensures him enough equipment and supplies to keep on producing. His income has gone up because of greater production and better farm prices. So long as the prices of the things the farmer has to buy are kept relatively low he can benefit from an improved income.

There are two reasons why farmers should support stabilization at levels now prevailing — reasons that appeal directly to self-interest. First, while admittedly the prices of farm products would rise even more than they have done if control were not exercised, so too would all the items entering into the cost of living and of production. With a stabilized price level and an assurance that a reasonable profit will result from productive operations farmers can expand output with some confidence. This has led to a very marked increase in production and a corresponding increase in farm income.

The second reason why inflation would hurt the farmer is that a period of deflation has invariably followed one of abnormal price increase and deflation has always struck agriculture and the groups depending upon it a heavy blow.

Most farmers know what happened after the last war. They recall the drastic decline in land values, the heavy burden of debt, the reduction in income and the lowering of the standard of living that took place. If we can prevent the recurrence of these conditions with all the misery they entailed, something really worthwhile will have been accomplished.

With an uncontrolled price movement the prices attained for farm products might well be such as could not be maintained after the war even under a policy of price floors. Should this prove to be the case the establishment of a high cost structure, which would be difficult to bring into alignment with farm prices, would in the long run more than offset any temporary advantage accruing to farmers.

At the outbreak of the present war it was clearly realized that farm prices were still far below what might be called a reasonable level. Largely because of the conditions of supply in Canada, farm prices of certain commodities reacted more slowly than hitherto to wartime conditions. To some extent this situation prevailed even at the inauguration of the price ceiling late in 1941. Therefore, to bring farm prices into balance with other prices and with wages, to meet increased costs of production and to stimulate the necessary production of food products, the government has authorized

price increases or granted subsidies for farm products during the last two and a half years, even though other prices have been frozen at 1941 levels.

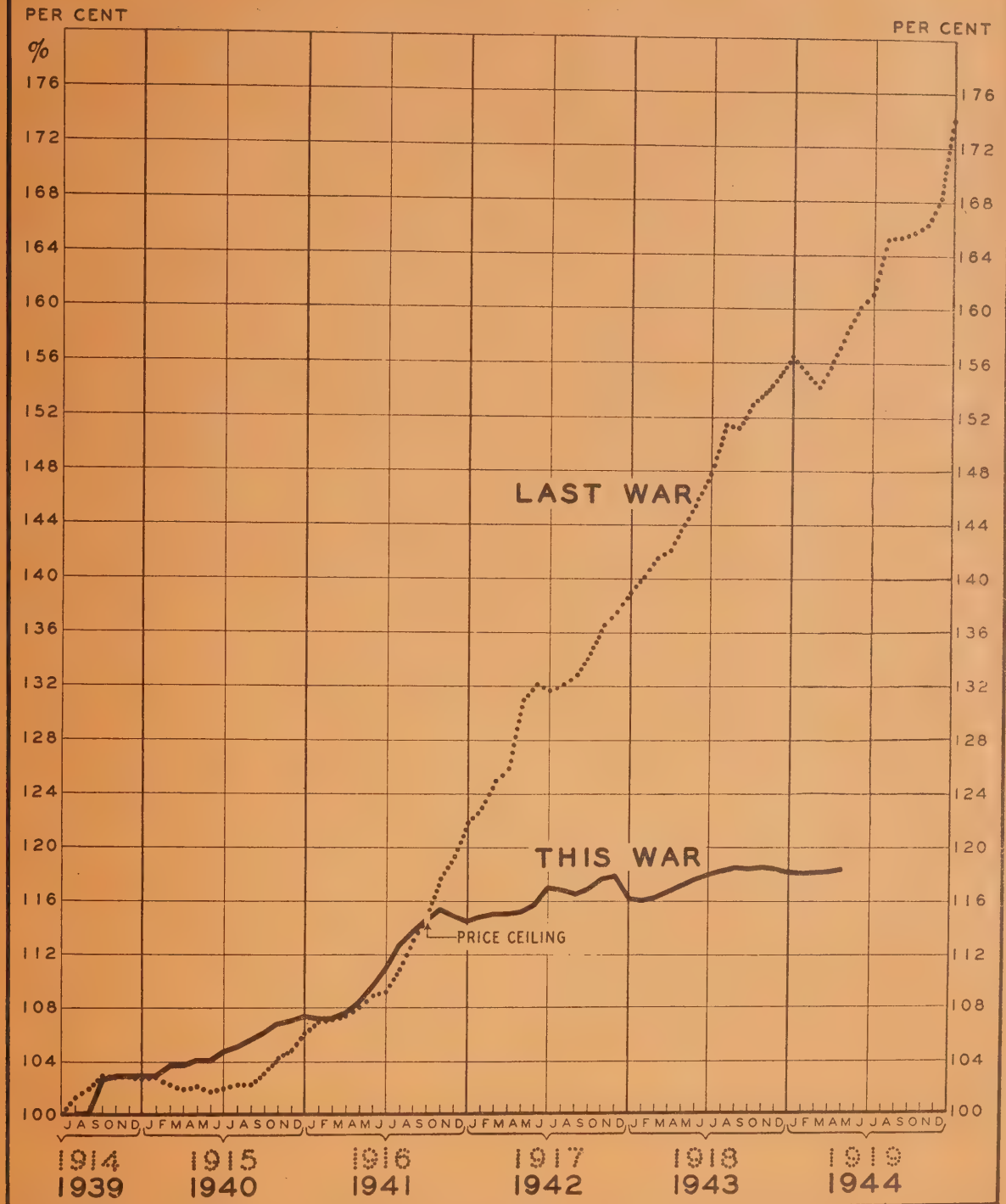
That policy, aided by wartime conditions, has meant an increase of some 60% in the level of farm prices since 1939. These higher prices combined with increased production have increased the gross cash income of Canadian agriculture from \$722,000,000 in 1939 to approximately \$1,400,000,000 in 1943. Thus, in spite of the fact that farm costs have increased somewhat since the outbreak of the war, farm prices have finally achieved about the same relation to other prices and the cost of living as existed between 1926 and 1929. That was a relatively prosperous period for the Canadian farmer as well as the other groups in the community.

Now that a reasonably satisfactory level of prices for farm commodities has been attained, most Canadian farmers will recognize the necessity of supporting a general programme of price stabilization. They realize that their failure to support this effort will make its attainment very difficult. To those who do not appreciate the significance of what has already taken place it might be pointed out that the purchase of food represents roughly one-third of the consumer's total expenditures. Consequently the increase that has already occurred in the prices of farm products has had an appreciable effect on the cost of living. Any further increase will make it extremely difficult to keep the cost of living under control.

Past experience has clearly shown that wartime inflation has been distinctly harmful to agriculture in the long run. Any temporary gains have been more than offset by the eventual losses in a protracted and violent period of readjustment. The net result has always been a lowering of the standard of living and of the general welfare of those associated with agriculture. If we can prevent such a development in this war, it will be possible to reduce the severity of post-war maladjustments and thereby strengthen the long-run position of agriculture. The Canadian farmer has therefore much to gain from the support which he is giving to the stabilization programme.

# CANADIAN COST OF LIVING IN TWO WARS

LAST PRE-WAR MONTH = 100



### 3 LABOUR AND THE PRICE CEILING

Labour whole-heartedly supports the policy of the price ceiling. Similarly, no important labour body in Canada has argued against the principle of wage control. On the other hand, there are some demands for wage and salary increases which, if they became widespread, would endanger the whole stabilization policy.

Some of the arguments in favour of relaxing wage control are based on a misunderstanding of the issues at stake. For example, it is sometimes said that in particular cases employers could afford to pay higher wages without raising selling prices. This statement overlooks the fact that if increases were authorized in such cases, then the government would be forced to permit increased wages in other firms and industries where employers could not pay those increases without price increases; or else use its powers to enforce discrimination against workers in the less profitable firms and industries; or to allow workers to shift to the higher paid fields of employment regardless of the importance of their work. The first alternative would wreck price control; the second would be unfair to the employees involved; the third would prevent the orderly working of our war-time economy as well as curtail consumer supplies from the fixed-wage industries. Furthermore, it must not be forgotten that no industry is allowed to make excessive profits as a result of the ceiling on wages. The corporation income and excess profits taxes prevent that.

Misunderstanding also arises in another important case. It is sometimes suggested that wage control is unnecessary in industries producing war materials on the grounds that these goods are not purchased by ordinary consumers. This is not a valid argument. In the first place, exactly the same reasons advanced in the previous section can be opposed to this statement. In the second, an increase of wages in the munitions industries will result in a corresponding increase in the cost of munitions and government revenues will have to be raised to meet the increased expense. This means that every taxpayer, including these wage-earners who would

not be entitled to higher wages, would have to pay more taxes.

Holding wage rates down to the level of 1941 was bound to create some cases of inequity which needed to be remedied. Consequently, the War Labour Boards (on which Labour is represented) have the power to rectify cases of hardship or injustice, or to permit upward adjustments in other special cases. To November, 1943, the War Labour Boards have dealt with about 43,500 applications for wage adjustments affecting more than 3,000,000 workers. Increases in wages and in cost of living bonuses have been permitted in over 90% of the cases.

But apart from situations of this kind, the wage ceiling must be held if Canada is to avoid inflation. And no control on wages would be tolerated in a democratic country unless it applied to all alike, and not simply to a minority.

## The Record Under Stabilization

The best measurement of the success of the stabilization programme is the cost of living index. That index is calculated by the Dominion Bureau of Statistics. The Bureau first issued its statistics on the cost of living many years before the outbreak of war, but the index was completely overhauled and brought up to date in 1938 as the result of a year's careful survey. Since 1938, and particularly during the war years, it has been consistently kept up to date with regard to both consumers' spending practices and statistics while its officials are in constant touch with shifts in the price levels throughout the Dominion. Therefore, it is the most accurate indicator of price movements available.

The official index shows an increase of about 3% since December, 1941, when the price ceiling policy was adopted. While the prices of some things increased, others remained stationary. For example, food increased about 8%, clothing increased less than 2%, rents less than 1%, and fuel and lighting remained unchanged. To appreciate the achievement of the Canadian people in price control, it is only necessary to recall that during a roughly similar period in the last war (1917-1918) *average prices rose 10 times as much.*

Furthermore, during this war the upward pressure on prices has been far greater because of the fact that a much larger proportion of the country's economic facilities has been mobilized for war (50% as compared to about 10% from 1914-1918). For that reason, the effectiveness of Canada's current economic controls is all the more impressive.

Canada's wage and price controls and other stabilization measures are by no means unique. They are duplicated in one form or another in the United Kingdom, in the British Dominions and in the United States. Certain features of the Canadian system of controls have been copied from the systems of other countries while features of the Canadian stabilization programme have been copied elsewhere. Our record speaks for itself — the cost of living in Canada has shown one of the smallest wartime increases of all the important countries that make up the United Nations. But we must never forget that our record is the result of unceasing vigilance, unrelenting effort and joint responsibility in a common cause.

To slip up now, to relax even momentarily will not only mar that record — it will weaken our war effort at a moment of crisis in the battle for democracy.

## How Each of Us Can Help

The stabilization programme is a democratic way of mobilizing a country for war. It is democratic because it is fair, and because responsibility rests with the people of Canada themselves. The detailed application of these policies must necessarily be placed in the hands of officials, but the final responsibility rests with the people and with their representatives in Parliament. In the last analysis a bold programme of economic stabilization calls for the continued exercise of self-restraint on the part of every individual.

Each one of us can help to do the job by:

1. Paying taxes promptly.
2. Cutting out all unnecessary spending.
3. Buying all the Victory Bonds and War Savings Certificates possible.
4. Buying and selling only at legal prices.
5. Not trying to get more than a fair share of scarce supplies.
6. Supporting both price and wage control.
7. Not pressing claims for higher profits or higher pay because of wartime conditions.



# MEMORANDA



